

2/16/06

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SMITH & ASSOCIATES

REAL  
ESTATE  
VALUATION  
AND  
CONSULTING



**CONSULTING SERVICE FOR**

**In-Lieu Park Fees  
City of Milpitas, CA**

**File Number: T066753**

**PREPARED FOR:**

**Mr. Dennis Carrington  
Planning & Neighborhood Services  
City of Milpitas  
455 E. Calaveras Blvd.  
Milpitas, CA 95035-5479**

**PREPARED BY:**

**Terry S. Larson, MAI  
AG007041**

**SMITH & ASSOCIATES, INC.  
140 Town and Country Drive, Suite F  
Danville, California 94526  
Phone (925) 855-4950  
Fax (925) 855-4951**





February 16, 2006

Mr. Dennis Carrington  
Planning & Neighborhood Services  
City of Milpitas  
455 E. Calaveras Blvd.  
Milpitas, CA 95035-5479

RE: Consulting Service for In-Lieu Park Fees  
City of Milpitas, CA

Dear Mr. Carrington:

At your request, we have performed a Consulting Service for In-Lieu Park Fees. The purpose of the Consulting Service is to provide an opinion of the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Sales Price per Acre throughout the City. The property rights considered are those of the Fee Simple Estate. The function of the report is for use by the City of Milpitas to assist in setting city-wide in-lieu park fees to be charged to developers.

We have been asked to research land sales in the City of Milpitas, and surrounding cities, that might be considered as park site locations. With the sales identified, we were then asked to determine the Average Market Value of a hypothetical one-acre parcel. While the emphasis is on residential land sales, we also considered commercial and industrial land sales that are considered reasonable locations for a park. Because we are not evaluating a specific parcel, but rather providing a mathematical conclusion to be used throughout the city, this is considered a Consulting Service and not an appraisal.

Based on our investigation and analysis, as described in the attached report, it is our opinion that the Average Market Value of the Fee Simple Estate in a potential park site location in the City of Milpitas, subject to the attached Contingent and Limiting Conditions, as of January 31, 2006, is:

**Fifty Dollars Fifty Cents PER SQUARE FOOT  
(\$50.50/SQ. FT.)**

**OR**

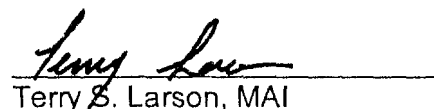
**TWO MILLION ONE HUNDRED NINETY NINE THOUSAND  
SEVEN HUNDRED EIGHTY DOLLARS PER ACRE  
(\$2,199,780/ACRE)**

Mr. Dennis Carrington  
City of Milpitas  
Page 2

The attached report contains the factual data and reasoning upon which Consulting Service has been predicated. This report has been written in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), and the Appraisal Institute standards, as well as the requirements of the City of Milpitas.

Please see the Special and General Contingent and Limiting Conditions regarding the values presented in this appraisal report, presented in Section I - Introduction.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Terry S. Larson", is written over a horizontal line.

Terry S. Larson, MAI  
Certified General Real Estate Appraiser  
State of California #AG007041, exp. date 11-30-2006

TSL  
enclosure

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***SECTION I –  
INTRODUCTION***



## **SUMMARY OF SALIENT FACTS AND CONCLUSIONS**

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Client:	City of Milpitas
Property Location:	Throughout the City of Milpitas
Property Type:	Potential Park Land
Assessor's Parcel Number:	N/A
Land Area:	Hypothetical One-Acre Parcel
Zoning:	Residential, Commercial and Industrial
General Plan:	Residential, Commercial and Industrial
Flood Hazard Zone:	No
Alquist Priolo Special Study Zone:	No
Present Use:	Residential, Commercial and Industrial
Highest and Best Use:	Residential, Commercial and Industrial – Suitable for Park Land
Estate Appraised:	Fee Simple
Purpose of the Appraisal:	Determine Average Sales Price
Value Premise:	Vacant and Ready for Development
Appraisal Date:	January 31, 2006
<b>Average Sales Price:</b>	<b>\$50.50/sq. ft.</b> <b>or</b> <b>\$2,199,780/acre</b>
	Subject to the attached Contingent and Limiting Conditions
Appraiser:	Terry S. Larson, MAI Certified General Real Estate Appraiser State of CA #AG007041, exp. 11/30/2006

## **CERTIFICATION**

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We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. Our analyses, opinion, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
8. Terry S. Larson, MAI has had personal discussions with James Lindsay at the City of Milpitas regarding the scope and structure of this Consulting Service.
9. Doug Hogendorn provided significant professional assistance to the person signing this report. Mr. Hogendorn assisted in the property inspection, market data collection and analysis, and the final value conclusion in this appraisal.
10. As of the date of this report, Terry S. Larson, MAI has completed the requirements under the continuing education program of the Appraisal Institute.

  
\_\_\_\_\_  
Terry S. Larson, MAI  
Certified General Real Estate Appraiser  
State of California #AG007041, exp. date 11-30-06

## **SPECIAL CONTINGENT AND LIMITING CONDITIONS**

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The certification of the Appraiser appearing in the appraisal report is subject to the following Special Contingent and Limiting Conditions and to such other specific and limiting conditions as are set forth by the Appraiser in the report.

1. This Consulting Service is intended to determine the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Sales Price per Acre throughout the City.

## **GENERAL CONTINGENT AND LIMITING CONDITIONS**

The certification of the Appraiser appearing in the appraisal report is subject to the following General Contingent and Limiting Conditions and to such other specific and limiting conditions as are set forth by the Appraiser in the report.

1. The Appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the Appraiser render any opinion as to the title, which is assumed to be good and marketable. The property is appraised as though under responsible ownership.
2. Any sketch in the report may show approximate dimensions and is included to assist the reader in visualizing the property. The Appraiser has made no survey of the property.
3. The Appraiser is not required to give testimony or appear in court because of having made the appraisal with reference to the property in question unless arrangements have been previously made therefore.
4. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
5. The Appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil or structures, which would render it more or less valuable. The Appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors.
6. Information, estimates and opinions furnished to the Appraiser, and contained in this report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished the Appraiser can be assumed by the Appraiser.
7. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of The Appraisal Institute.
8. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to the property value, the identity of the Appraiser, professional designations, reference to any professional appraisal organizations, or the firm with which the Appraiser is connected), shall be used for any purposes by anyone but the client specified in the report, the mortgagee or its successors and assigns, mortgage insurers, consultants, professional appraisal organizations, any state or federally approved financial institution, any department, agency or instrumentality of the United States or any state or the District of Columbia, without the previous written consent of the Appraiser; nor shall it be conveyed by anyone to the public relations, news, sales, or other media, without the written consent and approval of the Appraiser. Any other party who uses or relies upon any information in this report, without the preparer's written consent, does so at their own risk.

## **GENERAL CONTINGENT AND LIMITING CONDITIONS - CONTINUED**

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9. On all appraisals, subject to satisfactory completion, repairs, or alterations, the appraisal report and value conclusion are contingent upon completion of the improvements in a workmanlike manner.
10. Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyl's, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraiser become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to test such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property, the value estimated is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.
11. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since there is no direct evidence relating to this issue, the appraiser did not consider noncompliance with the requirements of the ADA in estimating the value of the property.
12. This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated below. The appraiser is not responsible for unauthorized use of this report.

***SECTION II –  
DESCRIPTIVE INFORMATION***

## **IDENTIFICATION OF THE PROPERTY**

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This Consulting Service is intended to determine the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas with the potential of being developed with a park. This report does not consider any individual property, but rather looks at the Average Sales Price per Acre throughout the City.

## **PURPOSE, PROPERTY RIGHTS AND FUNCTION OF THE APPRAISAL**

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The purpose of the appraisal is to provide an opinion of the Average Market Value of a hypothetical one-acre parcel of land in the City of Milpitas with the potential of being developed with a park.

The appraisal is being prepared at the request of the City of Milpitas and the intended use is to assist in setting city-wide in-lieu park fees to be charged to developers. It is not to be used by any other entity for any purpose without the written consent of the appraisers. The appraisers are not responsible for unauthorized distribution and/or use of this report.

## **EFFECTIVE DATE OF THE APPRAISAL**

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The effective date of this Consulting Service is January 31, 2006.

## **COMPETENCY PROVISION**

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The appraisers possess both the knowledge and required ability to appraise property within the City of Milpitas. It is within the Smith & Associates, Inc. defined service area and the appraisers have the required resources, including zoning information, Assessor's records, Multiple Listing Service, Brokers Property Promotion and Distribution Services, MetroScan and COMPS, Inc. The appraisers affiliated with Smith & Associates, Inc. have appraised numerous properties of a similar type in the area and its competing environment. **Please see a copy of the appraiser's qualifications in the Addenda.**

## **DEFINITIONS**

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### Fee Simple Estate

*"Absolute ownership unencumbered by any other interest of estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."*

### Market Value

*"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

- a. *Buyer and seller are typically motivated;*
- b. *Both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. *A reasonable time is allowed for exposure in the open market;*
- d. *Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and*
- e. *The price represents the normal consideration for the property sold unaffected by creative financing or sale concessions granted by anyone associated with the sale."*

#### Real Property Consulting

*"The act or process of developing and reporting an analysis, recommendation, or opinion concerning real property, where an opinion of value is not a component of the analysis, recommendation, or opinion."*

#### Average or Central Tendency

*"The tendency of samples to cluster around a central point, or representative value, in a frequency distribution."*

#### Value As-Is

*"Value As Is" relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible rezoning."*

#### Cash Equivalency

*"The process in which the sales prices of comparable properties sold with atypical financing are adjusted to reflect typical terms."*

### **SCOPE OF THE CONSULTING SERVICE**

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Per the client's request, we have performed a **Consulting Service** and prepared a **Summary Report**. The methodology section of this report outlines the valuation procedures followed.

The specific steps in the consulting process include the following:

- Research and analyze all of the applicable land sales within the City of Milpitas within a reasonable time frame.
- The sales were investigated and confirmed regarding the details of the transaction, including; grantor and grantee, sale price, date, terms and conditions, development potential, number of residential units or square feet of commercial development, etc.
- A complete investigation of all sales was made. The most recent sales are given the most weight. We also considered properties currently in contract.



- Sales within Milpitas are given primary consideration. Consideration is also given to sales in East San Jose.
- We investigated land sales that reflect all potential residential land uses, including low, medium, and high-density residential projects, as well as commercial and industrial land sales. The attempt is to include land sales that represent possible public park locations. Some sales that would not make good park sites are excluded, such as hillside locations and sites adjacent to railroad tracks.
- Once the complete sample of sales was identified and verified, the sales were adjusted for the following characteristics; property rights conveyed, financing, conditions of sale (listings), market conditions (time) and physical condition. A market conditions adjustment is important as the market can change over time and older sales may need to be adjusted to reflect upward or downward trends to the current date of the consultation service.
- Physical conditions are important as parcels are in different stages of improvement and need to be adjusted to a similar base condition. We considered a base value assuming a vacant, level site with all street improvements including curbs, gutters, sidewalks, utilities, and street lights, but no development entitlements. All of the sales have been adjusted to this standard.
- Other adjustments for location, density, etc. are not made, as the aim is to represent an Average Per Acre Value in Milpitas. These adjustments would be property specific and should not be made in estimating an average market value.
- Once the sales were adjusted, we then calculated a mathematical average per acre market value.
- Because we are not considering a specific property, this is identified as a Consulting Assignment and not an Appraisal. We have prepared a Summary Report that provides all of the necessary information to fully document the comparable sales and adjustments and explain the process leading to the final Average Per Acre Determination of Market Value.

## **REGIONAL ANALYSIS**

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Milpitas is located in Santa Clara County, which is located in the northern portion of the State of California, and in the southern section of the San Francisco Bay Area. This county, as well as eight other surrounding counties comprises the San Francisco Bay Area. The other counties are San Francisco, San Mateo, Alameda, Contra Costa, Napa, Solano, Sonoma, and Marin Counties.

Santa Clara County, which is often referred to as Silicon Valley for the area's high tech industries, comprises the area identified as the South Bay region. Santa Clara County, which has a shoreline on the south end of San Francisco Bay extends south, southeast through the Coyote Valley, over 45 miles to the rural areas of Morgan Hill, Gilroy and the San Benito County line.

The west and southwest areas of the county sharply climb into the Santa Cruz Mountains, where elevations reach 3,300 feet. The east-county is dominated by the 4,200 foot high Mt. Hamilton, a part of the Diablo Range.

## **Population**

Santa Clara County is the most populous of the nine-county Bay Area Region. The population of the San Francisco Bay Area is estimated to be near 7.1 million residents (2005), according to the Association of Bay Area Governments (ABAG) "Projections 2005", a forecast of the San Francisco Bay Area to the year 2030. It is projected to grow beyond 7.5 million residents by the year 2010 according to ABAG. The following chart depicts both population trends for the entire Bay Area. Per the U.S. Census Bureau, population growth and projections in the nine county areas since 2000 is displayed on the following table.

<b>Location</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2030</b>
Alameda County	1,443,741	1,517,100	1,584,500	1,648,800	1,714,500	1,884,600
Contra Costa County	948,816	1,016,300	1,055,600	1,102,300	1,150,900	1,244,800
Marin County	247,289	251,400	258,500	268,700	275,000	284,000
Napa County	124,279	134,100	139,700	144,800	148,100	153,400
San Francisco County	776,733	798,000	810,700	825,800	859,200	924,600
San Mateo County	707,161	723,200	741,000	773,900	806,500	848,400
Santa Clara County	1,682,585	1,750,100	1,855,500	1,959,100	2,073,300	2,267,100
Solano County	394,542	423,800	466,100	504,500	532,400	581,800
Sonoma County	458,614	477,700	508,000	521,200	534,100	558,400
<b>Region</b>	<b>6,783,760</b>	<b>7,091,700</b>	<b>7,419,600</b>	<b>7,749,100</b>	<b>8,094,000</b>	<b>8,747,100</b>

*Source: ABAG Projections 2005*

Santa Clara County begins and ends the projection period as the most populous county in the region. The county population was 1,682,585 in 2000, and by 2030, is projected to reach 2,267,100. Within the county and the Bay Area, San Jose is by far the most populous city. In 2000, San Jose's population was 941,998 or approximately 56 percent of the county total. San Jose has about seven times the population of Sunnyvale, the county's second largest city. In 2030, San Jose's share of the county population will remain approximately the same.

Between 1990 and 2000, Santa Clara County added about 45,683 households (nine percent increase). This increase is the largest of any Bay Area county. During the 2000-2030 forecast period ABAG projects that Santa Clara County can expect a population increase of about 591,615 persons and 202,197 households. Over half of the county's household growth will occur in the San Jose area. San Jose is projected to outstrip the entire Bay Area in terms of absolute growth, expanding by 405,302 residents and 130,000 households.

The Bay Area continues to attract people with its employment opportunities, mild climate, recreational activities, top universities and cultural activities. According to ABAG Projections 2005, the population of the Bay Area will exceed 8.7 million people by 2030, an increase of 1.9 million from its current level (2000 Census). Santa Clara's population will top two millions residents by 2020. The current population is projected to increase by 11.5 percent over the forecast period (2000-2020) or less than 1 percent per annum. In contrast, the entire region is projected to increase by 19.3 percent over the forecast period, accelerated by population growth in Solano and Napa Counties.

While population growth in the region is expected to be substantial, it will still occur at a rate that is far slower than the growth in Southern California and other portions of the state. The Bay Area has some of the highest housing costs in the nation. People's ability to afford housing has long been cited as a factor that limits the region's ability to grow. The high incomes of many people in this region are clearly intertwined with the high cost of housing. Nevertheless, when the comparison is made between household incomes and housing costs, the Bay Area remains one of the least affordable areas in the nation.

In terms of population growth, the Bay Area is moderately behind California as a whole, as well as other areas in Northern California including the Sacramento region, as well as the San Joaquin Valley. Unlike these areas, there is not an abundant supply of land for future expansion, as growth in the Bay Area is impeded by topographical and geological constraints (mountain ranges, Pacific Ocean, San Francisco Bay, etc), as well as governmental policies. The resultant supply constraints positively impacts demand for residential properties.

### **Job Growth**

According to ABAG, Projections 2005 there are 3,516,960 total jobs in the San Francisco Bay Area as of 2005. This is above the 3,206,080 total jobs noted for 1990, which equates to job growth of 1.5% (annualized) over the past decade. Projections for the year 2010 indicate 3,836,540 total jobs. The following table summarizes the jobs by industry division for the entire Bay Area.

<b>Industry</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2030</b>
Ag & Natural Resources	24,470	24,470	24,670	24,870	25,070	25,470
Construction	231,380	226,380	246,380	268,830	292,530	339,350
Manufacturing & Wholesale	685,480	557,480	602,420	647,230	694,670	798,630
Retail Trade	402,670	364,870	397,870	430,670	464,470	531,270
Transportation & Utilities	177,940	172,080	181,780	189,420	196,970	212,970
Information	177,440	166,440	182,740	200,790	221,140	264,740
Financial & Leasing	283,350	289,850	315,600	337,150	361,860	411,540
Professional & Managerial	568,260	520,320	571,540	623,690	674,700	780,650
Health & Educ Services	623,950	634,690	700,070	759,790	816,980	941,730
Arts, Rec. & Other Services	432,440	423,440	466,280	507,370	547,800	625,750
Government	146,440	136,940	147,190	157,440	167,440	187,500
<b>Total Jobs</b>	<b>3,753,460</b>	<b>3,516,960</b>	<b>3,836,540</b>	<b>4,147,250</b>	<b>4,463,630</b>	<b>5,120,600</b>

*Source: ABAG Projections 2005*

In 1960 fifty-six (56) percent of all Bay Area jobs were in Alameda or San Francisco County. By the 1970s, early signs of job decentralization began to appear. Almost 34 percent of the job growth occurred in Santa Clara County, due to the early growth in electronics and instruments. The county experienced a 71 percent increase in jobs between 1960 and 1970.

Today, 39 percent of the region's jobs can be described as being part of the service sector. About 19 percent are in manufacturing or wholesale activities; 16 percent are in retail; and 26 percent are in other categories including government, construction, finance and agriculture. While some economic activities are concentrated in particular parts of the Bay Area, the economies in each county have generally become more diverse.

The Bay Area's economy is expected to generate a demand for about 1,367,140 new jobs over the period 2000 to 2030, approximately equal to the number of jobs added during the twenty years between 1980 and 2000. This reduction in growth in the long-term forecast is in part due to the changing demographics of the region. The Bay Area job outlook is transitioning in both the types of jobs, as well as their location. Some production operations have left the region due to labor and associated housing costs. The jobs that tend to stay are the research and development positions. Some of the nation's top universities and research institutions support these industries. The following table illustrates the current allocation and future job growth in the Bay Area counties from 2000 to 2025.

County	2000	2005	2010	2015	2020	2030	% Change 2000- 2030
Alameda	750,160	747,500	818,840	884,970	953,310	1,088,870	45.2%
Contra Costa	371,310	373,000	406,010	439,020	472,830	543,860	46.5%
Marin	134,180	135,610	141,770	148,490	156,060	173,580	19.4%
Napa	66,360	72,150	78,000	82,930	86,910	91,920	38.5%
San Francisco	642,500	575,800	624,050	673,870	723,850	829,090	29.0%
San Mateo	386,590	336,460	368,390	400,000	433,860	507,090	31.2%
Santa Clara	1,044,130	903,840	992,420	1,077,050	1,161,930	1,339,970	28.3%
Solano	136,740	148,640	162,390	175,900	189,450	217,910	59.4%
Sonoma	221,490	223,960	244,670	265,020	285,430	328,310	48.2%
<b>Total</b>	<b>3,753,460</b>	<b>3,516,960</b>	<b>3,836,540</b>	<b>4,147,250</b>	<b>4,463,630</b>	<b>5,120,600</b>	<b>36.4%</b>

Source: ABAG, Projections 2005

Alameda County will see the largest increase in jobs over the ABAG forecast period.

The unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 4.6 percent in December 2005, down from a revised 5.3 percent in November 2005, and below the year-ago estimate of 5.6 percent. This compares with an unadjusted unemployment rate of 4.8 percent for California and 4.6 percent for the nation during the same period. The unemployment rate was 4.5 percent in Santa Clara County.

The end of the 1990s saw tremendous growth in Santa Clara County. Known as the Silicon Valley, it became the embodiment of a "New Economy" that is driven by efficiencies from computers, communications and the Internet. During the 1990's, the county added 201,400 jobs, more than 20,000 per year. Traditionally a center for manufacturing, the county actually lost jobs in that sector. Service jobs, primarily business service jobs, increased by 152,750, accounting for more than 75 percent of new jobs. Job growth continued in many sectors throughout 2000, even as the news media reported the demise of the dot.com companies.

Ultimately companies that provided the services and materials for Internet companies eventually accounted for most of the job losses. Expectations for the expansion of the internet and telecommunications caused a variety of more established companies to meet expected demand and to insure that they had developed the latest technology.

When those expectations changed, it was companies that made equipment and provided business services, not the pure Internet companies that really caused a shift in the county's economic fortunes.

## Housing/Residential Construction

Home sales in the nine-county Bay Area declined on a year-over-year basis for the ninth month in a row in December 2005 as prices eased back from their November peak, a real estate information service reported.

A total of 9,347 new and resale houses and condos were sold in the region in December 2005. That was down 3.8 percent from 9,717 for November, and down 15.5 percent from 11,068 for December last year, according to DataQuick Information Systems.

The median price paid for a Bay Area home was \$609,000 in December 2005. That was down 2.6 percent from November's record high of \$625,000, and up 14.3 percent from \$533,000 for December a year ago. The annual price increase was the lowest since prices rose 13.1 percent to \$474,000 in March 2004.

The median price of a single family home in the county dropped in December 2005 to \$700,000 -- a figure that still makes the region one of the most expensive places to buy a home in the United States.

The following chart from DataQuick shows the recent statistics for all markets including resales homes, new homes and condominiums.

All Homes	No Sold Dec-04	No Sold Dec-05	Pct. Chg	Median Dec-04	Median Dec-05	Pct. Chg
Alameda	2,290	1,903	-16.9%	\$497K	\$575K	15.7%
Contra Costa	2,259	1,963	-13.1%	\$480K	\$573K	19.4%
Marin	408	292	-28.4%	\$732K	\$771K	5.3%
Napa	250	174	-30.4%	\$550K	\$572K	4.0%
San Francisco	583	552	-5.3%	\$683K	\$727K	6.4%
San Mateo	801	738	-7.9%	\$668K	\$739K	10.6%
Santa Clara	2,632	2,305	-12.4%	\$569K	\$642K	12.8%
Solano	1,053	773	-26.6%	\$404K	\$473K	17.1%
Sonoma	792	647	-18.3%	\$484K	\$558K	15.3%
Bay Area	11,068	9,347	-15.5%	\$533K	\$609K	14.3%

Source: DataQuick Information Systems, [www.DQNews.com](http://www.DQNews.com)

## Conclusion

Sales of single family homes in Santa Clara County slowed in December and prices slipped, as the overheated housing market of recent years continued to cool. While there is still demand, prices are dropping somewhat, buyers are more in charge than they have been in years, and a return to single-digit appreciation in home prices could hit the valley within months.

The number of residential building permits hit a dramatic high in 2000, the height of the California new home market, and then declined over the next two years. This corresponds to the recession that was apparent in early 2001. The decline of land available for single family detached homes, coupled with the trend of cities to bolster support of transit systems by rezoning non-residential land to high density residential uses, created the high ratio of multi-family construction now apparent in this area.

Traffic will be a continuing problem as population and industry grows. Population and job growth expectations are for continued growth. Housing affordability is an on-going problem, however, more affordable homes are available than in most counties of the Bay Area. Most municipal planning departments, throughout the county, are actively participating in seeking solutions to the potential housing shortage and traffic problems. Most cities are encouraging central city housing that is integrated with new office and retail development. Cities are also increasing density allowances, particularly when low-income units are included in projects.

According to the information provided by ABAG, there is land for 102,830 housing units identified for development in Santa Clara County through 2025. In addition, there is household growth identified at 129,310 units for the same period. As a result, a shortage of 26,480-units is projected over the forecast period. Even with recent reductions in household growth projections by ABAG, there is still a deficit projected over the forecast period due to the lack of vacant land for residential development. It is unclear as to whether or not this study included any anticipated tear downs and use changes as evidenced by the subject property. However, the latest forecast by ABAG suggests more in fill development in the areas of public transportation.

The intrinsic desirability of the region, its foundational economics, projected jobs and population expansion, and dwindling supply of readily developable land, gives strong support to real estate values, and their potential for long-term stability. Economic indicators such as job growth, unemployment rate, and income levels suggest an improving economic environment. Projections for the long-term remain positive for Santa Clara County and there should be steady long-term growth.

## ***Income Growth***

Santa Clara County is in the top one-third of the nine Bay Area counties with respect to mean household income. Between 1990 and 2000, income in Santa Clara County increased 37%, despite a recession during the first half of the decade. The county's economic performance in this category is outstanding, far outstripping the Bay Area's 23% gain during the same period. Projections by ABAG indicate that future county income growth (2000-2010) will be around 7%, a much more modest performance than that of the previous decade.

The median income for a household in the city of Milpitas is \$84,429, and the median income for a family is \$84,827. Males have a median income of \$51,316 versus \$36,681 for females. The per capita income for the city is \$27,823. 5.0% of the population and 3.3% of families are below the poverty line. Out of the total population, 5.5% of those under the age of 18 and 6.4% of those 65 and older are living below the poverty line.

Within the county, the highest income households reside in Los Altos, Los Altos Hills, Monte Sereno, and Saratoga. These locations have little to do with where jobs are located, but rather where the most prestigious and expensive homes are built. These are areas in the hills, with views, oak trees and custom homes.

SUBREGIONAL STUDY AREA	MEAN HOUSEHOLD INCOME						
	IN CONSTANT 2000 DOLLARS						
	1990	2000	2005	2010	2015	2020	2025
CAMPBELL**	71,000	97,400	98,500	100,100	103,700	108,300	113,800
CUPERTINO**	105,900	147,300	150,200	154,800	163,300	171,600	180,200
GILROY**	68,700	91,000	97,500	101,100	110,900	114,900	118,700
LOS ALTOS**	145,300	215,000	220,400	237,200	254,300	270,800	285,400
LOS ALTOS HILLS**	255,900	385,000	407,000	442,000	478,200	508,400	535,100
LOS GATOS**	115,900	165,100	170,300	176,400	182,000	191,000	200,900
MILPITAS**	88,100	112,200	114,600	121,300	125,400	130,200	136,700
MONTE SERENO**	195,800	215,300	226,400	245,000	262,300	280,700	293,000
MORGAN HILL**	89,500	107,100	115,400	122,400	129,800	131,600	139,000
MOUNTAIN VIEW**	72,000	100,200	103,700	111,500	116,700	124,000	130,300
PALO ALTO**	99,300	149,200	150,700	162,400	172,800	183,500	192,600
SAN JOSE**	75,400	102,300	104,300	109,100	114,700	121,000	127,300
SANTA CLARA**	71,900	99,400	101,100	105,900	111,200	115,700	121,600
SARATOGA**	163,100	242,600	246,500	265,500	286,400	304,000	320,100
SUNNYVALE**	77,000	104,400	107,700	113,000	117,800	123,100	129,400
REMAINDER	100,700	138,200	141,000	143,600	149,900	157,600	163,200
<b>SANTA CLARA COUNTY</b>	<b>83,600</b>	<b>114,600</b>	<b>116,900</b>	<b>122,800</b>	<b>129,100</b>	<b>135,600</b>	<b>142,500</b>
*CITY    **CITY SPHERE OF INFLUENCE    ***URBAN SERVICE AREA    ****OTHER SUBREGIONAL AREA							

## Conclusion

Economic indicators such as job growth, unemployment rates, income levels and new home pricing suggest that Santa Clara County is still in a period of correction, following the recession of 2001 and 2002. Silicon Valley companies have more or less stopped laying off employees and in fact, hiring and new job creation is on the rise.

Despite the pain of unemployment, layoffs do work and as Silicon Valley companies turn profitable they are beginning to grow and new jobs are being created. Most experts agree that the success of real estate ventures is dependent on job growth and most think that this economy has begun to improve and significant job growth has restarted.

The supply of land in Santa Clara County and the overall Bay Area is diminishing. With an almost certain deficit of more than 26,000 housing units in Santa Clara County through 2025 and a short supply of mid-range housing in this market currently, regional demand should remain moderate to strong as the job market and overall economy improves in this county.

## **CITY ANALYSIS**

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The City of Milpitas is located in the northeastern section of Santa Clara County, in the eastern portion of Silicon Valley. San Francisco is approximately 50 miles to the north while San Jose borders Milpitas to the south and east, and the City of Fremont is to the north. Land uses within the city are relatively diverse with most of the residential development located in the city's northern and eastern areas, while industrial and research and development uses are located primarily near the southern and western areas. Between I-880 and Highway 680, commercial development is generally oriented along the major thoroughfares of Calaveras Boulevard, North & South Milpitas Drive, Jacklin Road, Montague Expressway, and Main Street. Just west of I-880 are the developing R&D, Office, and older manufacturing facilities north of Montague Expressway and along McCarthy Boulevard and Tasman Drive. There was recently about 1,000,000 sq.ft. of new office/R&D construction within the McCarthy Ranch Development. This project extends north from Highway 237 to Dixon Landing Road adjacent to the west side of I-880.

Highways 680 and 880 run north-south through Milpitas connecting with the East Bay and Oakland to the north, while Highway 237 runs east-west, connecting with Highway 101 and the lower San Francisco Peninsula to the west. Highway 237 connects Highways 680 and 880. Access to and from Milpitas to all parts of the Bay Area, and beyond, is easy and direct by virtue of these three Highways passing through the city.

Over the past several years the City of Milpitas has attracted its share of development, due partly to its abundance of land that is readily accessible from the Bay Area highway system. As Santa Clara, Sunnyvale, and San Jose, all located to the west became built-out, Milpitas has received much more attention for development activity for both the Office and R&D sectors. Most of the land in Milpitas is now either developed or spoken for. Milpitas has also been quite fortunate in that the bulk of its office, R&D, and industrial development has occurred since the advent of the controlled environment business park, a concept that became popular in the Bay Area during the early 1970s. Most of the new office and industrial projects that have been built in Milpitas during recent years have been located in master-planned business parks.

Along with R&D development, retail development has also been active in Milpitas. The McCarthy Ranch Marketplace was opened in 1994 and consists of a 550,000 square foot power center including such "big box" retailers as Wal-Mart, Office Max, Borders Books, and Pet-Smart. This center sold in 1999 for \$32 million. A number of small retail buildings on individual parcels are adjacent to the Marketplace and include a number of restaurants and fast food facilities. The Great Mall of Milpitas, consisting of mostly discount retailers, totals 1,300,000 square feet in an enclosed Super Regional Mall. It also opened in 1994 and sold in 1999 for \$130 million. Again, the central location and ease of access from the Bay Area highways has led to the development of Super Regional and Discount Malls.



Land uses within Milpitas range from Very Low Density Residential (1 dwelling unit per 10 acres) to High Density Residential (40 dwelling units per 1 acre), to commercial, to industrial and public sector (schools, parks, fire stations, etc.).

The lowest density residential developments tend to be located on the hillside in east Milpitas, where single-family homes easily exceed \$1,000,000. The maximum density for hillside development is 3 dwelling units per 1 acre. Single-family Low Density (3-5 dwelling units per 1 acre) up to the highest densities are located along the Valley floor, west of the hillside and east of Highway 880.

Commercial land uses include the Town Center at East Calaveras Blvd. and North Milpitas Blvd. where the City Civic Center is located. Other Commercial uses are General Commercial, Retail Sub-Center, Professional/Administrative Offices, and Highway Service. Industrial land uses consist of Manufacturing and Warehousing, and Industrial Parks. Commercial and Industrial uses are located along the Valley floor with industrial uses centered along the west side of Highway 880 and along South Milpitas Blvd. Commercial use are generally centered along major traffic arteries such as Main Street, Abel Street and Calaveras Blvd., with the McCarthy Ranch Marketplace at the northwest quadrant of Highways 880 and 237. The Great Mall of Milpitas is along the Montague Expressway.

All of these diverse land uses provide Milpitas with a mix that is vital to the overall health and future development and growth of a prospering city. The Valley floor, where the majority of low-high density residential, commercial and industrial uses are located, is the primary area where city parks will likely be located. Therefore, this is the location where we have focused our research for comparable land sales for this analysis.

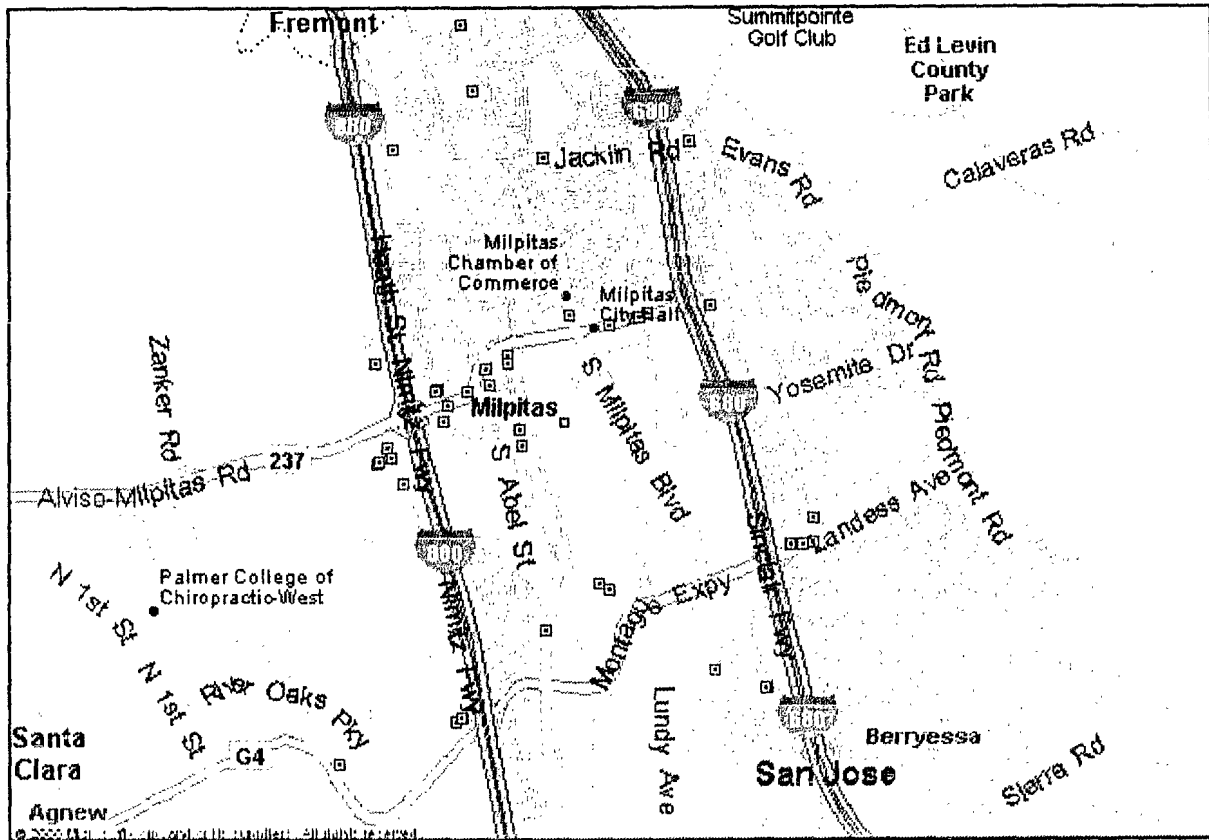
Another important consideration in Milpitas is the Milpitas Midtown Specific Plan. This is the area where much of the future development and redevelopment activity is planned to take place and it is oriented towards mixed-use, high-density projects. It is likely that new City parks will be needed in this area, and thus, we have focused our research attention in this area of town. Because parks could be constructed in any and all zoning districts, it is important to consider all types of land uses in determining land values.

This Milpitas Midtown Specific Plan provides a new vision for an area of approximately 1,000 acres of land that is currently undergoing changes as part of its growing role as a housing and employment center in the Silicon Valley. Development activity over the past several years has included approval and/or construction of 1,200 units of housing, reinvestment in the Great Mall, extension of the Tasman East Light Rail Line, and proposals to extend BART through the area as part of the San Jose extension. The overall strategy in the Midtown Area is to create a mixed-use community that includes high-density transit-oriented housing and a central community "gathering place", while maintaining needed industrial, service, and commercial uses. Overall, the Midtown Specific Plan provides for up to 4,860 new dwelling units and supporting retail development, new office development, bicycle and pedestrian trails and new parks to serve residential development.

The Midtown Specific Plan Area is generally bounded by the Union Pacific Railroad lines on the east, Trade Zone Boulevard on the south, South Main Street, Highway 880, Abel Street on the west and Abel Street on the north. It is centered along the Valley floor.

Although located on the east-side of Silicon Valley, Milpitas has become an increasingly desirable location for business, as well as a desirable community in which to live. The high cost of housing and commercial property in the West Valley and lack of available developable land has drawn business and residents to the community. Ease of access to the Bay Area freeway system also helps make this a desirable location.

### CITY MAP



## MARKET OVERVIEW

### Commercial/Industrial Market

BT Commercial Real Estate publishes a quarterly report for Bay Area Cities. The following statistics are for R & D, Office, Manufacturing, and Warehouse space in Milpitas and Silicon Valley.

<b>COMMERCIAL REAL ESTATE MARKET STATISTICS</b>				
	<b>R&amp;D</b>	<b>Office</b>	<b>Manufacturing</b>	<b>Warehouse</b>
<b>Milpitas</b>				
Vacancy - 4Q2005	23.1%	13.0%	6.5%	12.8%
Vacancy - 4Q2004	27.8%	12.2%	13.7%	12.9%
Ave. Asking Rent - 2005	\$0.86	\$1.64	\$0.33	\$0.35
Ave. Asking Rent - 2004	N/A	N/A	N/A	N/A
Ave. Time on Market - 2005	37.8	N/A	30.1	21.1
Ave. Time on Market - 2004	N/A	N/A	N/A	N/A
Gross Absorption - 2005	2,184,465	293,963	262,676	852,886
Gross Absorption - 2004	1,370,790	280,851	73,843	865,922
Net Absorption - 2005	692,029	10,587	161,113	4,021
Net Absorption - 2004	-373,724	27,547	-25,117	141,579
<b>Silicon Valley</b>				
Vacancy - 4Q2005	19.7%	13.1%	6.4%	10.9%
Vacancy - 4Q2004	21.8%	14.3%	6.8%	13.4%
Ave. Asking Rent - 4Q2005	\$0.88	\$2.12	\$0.60	\$0.40
Ave. Asking Rent - 4Q2004	\$0.88	\$2.08	\$0.57	\$0.39
Ave. Time on Market -4Q2005	27.9	21.7	16.4	18.8
Ave. Time on Market -4Q2004	23.7	20.7	18.2	17.0
Gross Absorption -4Q2005	4,117,327	1,515,819	1,123,061	1,382,671
Gross Absorption -4Q2004	3,655,975	1,799,827	1,222,857	1,042,066
Net Absorption - 4Q2005	1,132,875	245,520	-163,022	-14,009
Net Absorption - 4Q2004	730,316	644,108	352,123	614,683

Milpitas is part of the Silicon Valley. This market fluctuates with the high-tech industry and has a history of sudden and dramatic swings in rental rates and vacancy. This was quite apparent in early-mid 2000, which saw a dramatic increase in commercial rents and decrease in vacancy. Late 2000 and early 2001 saw a sudden shift to lower rents and higher vacancy as a result of the shake out in the dotcom industry.

Today, vacancies are double digits in most market segments. We are seeing a continued softening of commercial rental rates and increased vacancy as a result. On the positive side, new construction is limited to redevelopment of older buildings because the area is almost entirely built-out. The scarcity of available land is one reason real estate values will likely remain strong. This market segment is worth a close watch, if the general economy continues its economic downturn.

Milpitas is a well-known and established community location in Silicon Valley. Businesses located here include "core businesses" as well as some startups and dotcom companies. Because of the influence of the high-tech market segment, including startup and dotcom companies, the area will likely experience fluctuations in rental rates and vacancies in the future. However, the long-term outlook for the local economy is positive, as Silicon Valley is still viewed as a worldwide center for technology and research.

## **Economy**

The computer industry, which includes computer equipment manufacturing and software programming, is the largest source of employment in Milpitas. With the gradual decline of computer-related industries in the Silicon Valley the real estate market is beginning to serve as an alternative source of employment because of the skyrocketing housing prices in Milpitas.

Milpitas has extremely high housing values. For example, a one-story, detached single-family home on a 1,500 square foot lot may cost \$700,000 in the city. However, these prices are considered low in the San Francisco Bay Area as a similar house may cost well over a million dollars. Reasons for the expensive housing include the economy, mild climate, foreign investment in the West Coast's housing, and a huge demand for limited homes.

## **Vacancy and Rents**

Silicon Valley has fueled a strong leasing market and a robust sales market throughout 2005 and into the year's final quarter. Transaction volume in Silicon Valley has been strong in 2005. But only in the last six months has that translated to reduced vacancy rates, significant positive net absorption, and some upward momentum in rents. The year's third quarter produced results that helped to substantiate the breakout results of Q2. While overall activity wasn't as fast and furious as in the second quarter, the Q3 gross absorption tally of 7.00 million square feet was the third straight quarter at or above 7.00 million square feet. Although news on the economic front continues to be mixed, Silicon Valley has to be encouraged by the modest employment gains in the third quarter and by growth in VC funding. VC funding totaled \$2.03 billion in the valley in the third quarter, the second straight quarter of increase, according to VentureOne and Ernst & Young. In addition, early-growth companies garnered 35% of the total, an increase from Q2 results and a good indicator that VC investment will continue to gain momentum.

## **Retail Market**

Santa Clara County's retail market is expected to stay healthy throughout 2006. San Jose will remain the strongest commercial real estate sector in the region. Moderate employment and population gains will warrant continued investor attention. Increasing retail absorption, due to businesses moving back into the area, and solid rent growth will further entice retail property buyers.

## **Commercial Land Market**

As would be expected, as rental rates decline and vacancies increase, demand for land for speculative investment projects should also fall. In fact, there have been relatively few speculative investment land sales in the market. The owner-user market, on the other hand, is still relatively strong and there have been a number of these types of sales. These sales tend to be smaller sites, generally less than 5 acres and many times less than 3 acres.

Another market phenomenon that has occurred is that small, owner-user sites have increased in value well above large investment land sales. This is even true when comparing small heavy industrial sites to larger R&D/business park sites.

In a strong market with good demand the R&D/business park sites would command higher per square foot prices. In the current market with increasing vacancies and declining rents, the reverse is true. Small heavy industrial sites command higher per square foot prices. In addition to the weak office/R&D markets, the lack of available small sites for owner-users tends to keep prices high.

The hypothetical one-acre parcel that we have been asked to consider is small enough in size that it would tend to maximize site value. Larger parcels tend to sell for lower per square foot values than smaller sites.

Another market change that is occurring with the soft commercial market is that some land owners are attempting to rezone their sites from industrial/commercial to residential, as this is the one market that is still active.

### **New Home Market**

According to the Meyers Group, a new home project tracking company, new home net sales in Santa Clara County for the period ending November 2005 increased 13.2% from the same period last year. This overall increase is despite a decline of 13.3% for single family detached homes. This occurred because townhouses and duets increased 3.6% and condominiums 65.7%.

Clearly attached housing has nearly taken over the Santa Clara County new home market. In the period ending November 2005 attached home sales totaled 2,126 units sold, versus 1,033 for single family detached. The overall median average new home price increased 3.2% January to November 2005, while the average home size was nearly unchanged. More than that, townhouse/duet prices were up 14.2% and condominium prices were up 14.5%.

### **In Conclusion**

In conclusion, the Bay Area and Silicon Valley has to be encouraged by employment gains in 2005. The unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 4.6 percent in December 2005, below the year-ago estimate of 5.6 percent. The unemployment rate was 4.5 percent in Santa Clara County. Commercial vacancies are high and rental rates are declining. The retail market appears to be healthier with much lower vacancies and stable rents. The housing market has lost some of its demand as sales of single family homes in Santa Clara County slowed in December and prices slipped, as the overheated housing market of recent years continued to cool. While there is still demand, prices are dropping somewhat, buyers are more in charge than they have been in years. Small in-fill sites of all kinds, including residential, are still in demand and the hypothetical one-acre parcel fits this description.

***SECTION III –  
VALUATION AND RECONCILIATION***

## **APPRAISAL METHODOLOGY – SALES COMPARISON APPROACH**

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The most common way of estimating land value is the Sales Comparison Approach in which recent sales or offerings of vacant land are gathered and analyzed. Typically, the values indicated by the comparable transactions are reduced to a unit of comparison such as sales price per square foot of land area, price per buildable unit, or price per square foot of developable building area.

The land sales developed for this assignment are displayed on the following **Comparable Land Sales Summary Table**. Additional details and comments with respect to each sale have been provided after the table, as well as discussion on adjustments to the unit of comparison used. We have also included a **Land Sales Adjustment Table**, **Photographs** and a **Land Sales Location Map** are included as well.

The sales are adjusted for property rights conveyed, financing, conditions of sale, market conditions (time), and physical factors, where necessary. Adjustments for other factors, such as location and density, etc. are not necessary as they would be property specific and should not be made in determining an average market value. The following narrative discussion will explain the adjustments for each comparable.

### **Land Sales Discussion**

The following table identifies several sales and listings that we believe are comparable for this consulting service. Six are located in Milpitas and five are located in East San Jose. The Milpitas land sales are given the most weight. Photographs and an Adjustment Table are limited to the Milpitas sales.

*Criteria for researching and selecting comparable sales as follows:*

**Time:** The real estate market, especially for commercial property, reached a peak in late 2000. We recently completed a report to determine the Average Market Value of a hypothetical one-acre parcel of land for the City of Milpitas, appraisal date of June 30, 2004. Therefore, we have restricted the comparable sales to June 2004 and later. We have adjusted upward for time by 1/2% per month.

**Location:** Sales within the City of Milpitas are given the most weight. Sales within Milpitas excluded those located in the eastern hills and next to heavy industrial uses such as railroad tracks, as these are not locations where a park would be built. As we identified only six sales within Milpitas, we also considered East San Jose as the secondary market that is the most similar. Central and West San Jose were specifically excluded, as land values tend to be much higher. Fremont was also considered, but land values tend to be lower there.

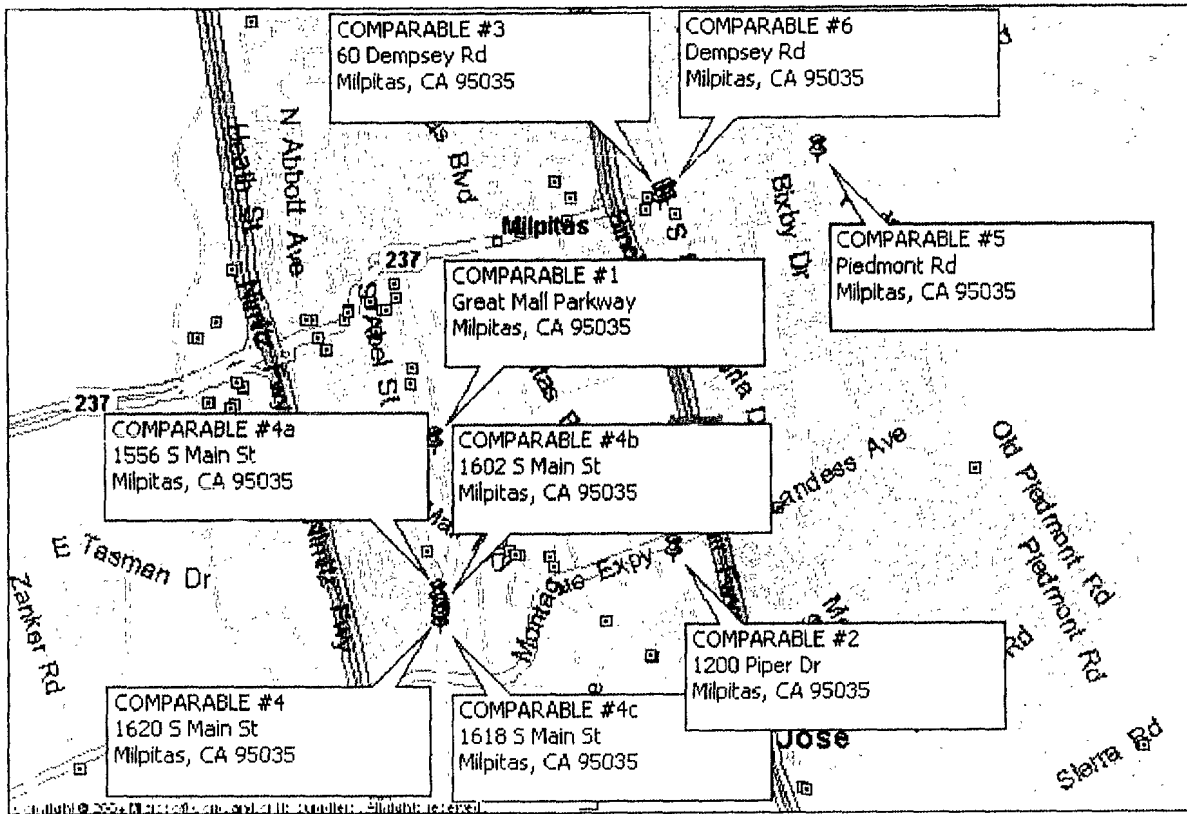
**Land Use:** Residential land sales are of primary consideration, as the conclusions will be used to assist in setting park in-lieu fees for residential developers. However, a city park could be placed in a commercial, industrial, or mixed-use area as well and the land would be purchased based on these land use characteristics. Therefore, we also considered commercial and industrial land sales that meet the location requirements discussed above.

COMPARABLE LAND SALES SUMMARY TABLE

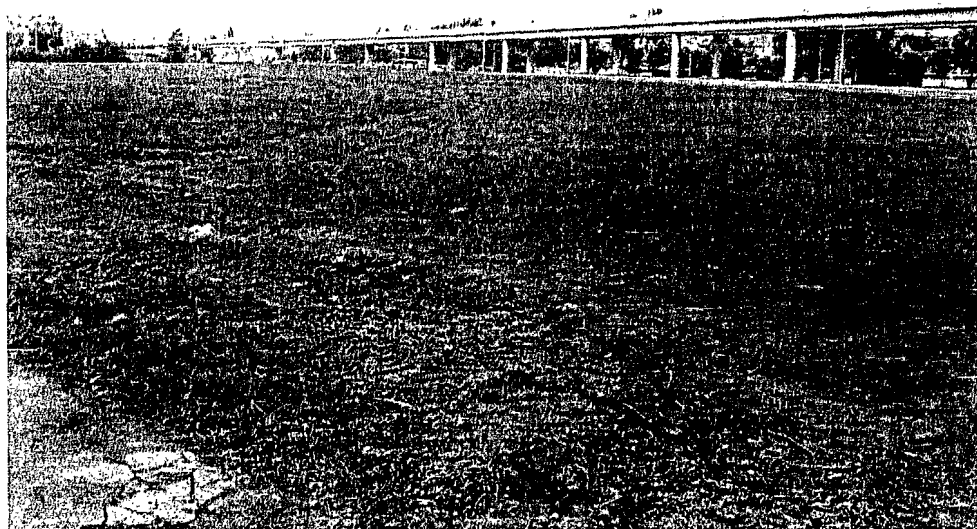
NO.	LOCATION APN	BUYER SELLER	ZONING GEN. PLAN	SQ. FT. ACRES	SALE DATE DOC. NO.	SALE PRICE PER SQ. FT. PER ACRE	COMMENTS
1	Great Mall Parkway, Main & Able Street Milpitas 086-12-015, 016, 020	Fairfield Residential Abel	R4 (up to 60 DUA) Multi-Family Very High Density Res.	358,934 8.24	1st quarter 2004 N/A	\$21,000,000 \$58.51 \$2,548,547	Gen. Plan-Multi-Family Very High Density Residential Zoning-R4. Within the Transit Oriented District, and Mid-Town Specific Plan Area. This property sold in the first quarter of 2004 without entitlements in place. Vacant land.
1a	Great Mall Parkway, Main & Able Street Milpitas 086-12-015, 016, 020	D. R. Horton Fairfield Residential	R4 (up to 60 DUA) Multi-Family Very High Density Res.	358,934 8.24	Nov-05 N/A	\$31,900,000 \$89.67 \$3,871,364	Gen. Plan-Multi-Family Very High Density Residential Zoning-R4. Within the Transit Oriented District, and Mid-Town Specific Plan Area. Approved for 481 condominium units, 100 units being affordable. Bought fully entitled. Vacant land.
2	1200 Piper Drive Milpitas 086-32-037, 040	Scs Dev Co. Waukesha Electric Systems	M2 Manufacturing & Warehouse	666,089 15.98	Sep-06 18592170	\$27,300,000 \$39.22 \$1,708,385	Gen. Plan-Manufacturing and Warehouse. Zoning-M2-Heavy Industrial. No residential, but the City of Milpitas would likely encourage residential use. There have been talks between developers and the City of Milpitas to change the current use to residential. Subject to approvals. No new zoning as of 1/18/06. The City of Milpitas is in the process of developing the Transit Sub Area Plan that would convert industrial to residential use. This property was purchase unentitled.
3	60 Dempsey Road Milpitas 089-04-056	Barakat II, LLC The Magda Schlobonn Testamentary	C1-S Retail Sub-Center	53,805 1.24	May-05	\$2,675,000 \$49.72 \$2,165,654	Gen. Plan-Retail Sub-Center. Zoning-C1-S, neighborhood commercial. This is part of an assemblage. There is an older building that needs to be demolished. Estimated 95 total units. In pre-application stage.
4	1620 S. Main St Milpitas 086-22-033	Bay Stone Development Ho	R4-TOD-S Multi-Family Very High Density Res. 31-40 du/ac	16,634 0.38	Jun-05	\$1,471,000 \$88.43 \$3,052,156	Gen. Plan-Multi-Family Very High Density Residential Zoning-R4-TOD-S. To be assembled with adjacent properties. The combined total price of all assembled properties equal \$54.18/s.f. There is a small structure that will be demolished. 5 story building, 379 total units. In pre-application stage.
4a	1566 S. Main St Milpitas 086-22-027	Bay Stone Development Regency Inn	R4-TOD-S Multi-Family Very High Density Res. 31-40 du/ac	47,480 1.08	Mar-05	\$2,600,000 \$54.78 \$2,365,041	Gen. Plan-Multi-Family Very High Density Residential Zoning-R4-TOD-S. To be assembled with adjacent properties. The combined total price of all assembled properties equal \$54.18/s.f. There is an old motel that will be demolished. 5 story building, 379 total units. In pre-application stage.
4b	1602 S. Main St Milpitas 086-22-042	Song Li	R4-TOD-S Multi-Family Very High Density Res. 31-40 du/ac	42,819 0.98	Nov-04	\$1,700,000 \$39.70 \$1,729,419	Gen. Plan-Multi-Family Very High Density Residential Zoning-R4-TOD-S. To be assembled with adjacent properties. The combined total price of all assembled properties equal \$54.16/s.f. Vacant land. 5 story building, 379 total units. In pre-application stage.
4c	1608-1616 S. Main St. Milpitas 086-22-034, 041	Song Li	R4-TOD-S Multi-Family Very High Density Res. 31-40 du/ac	58,898 1.35	Nov-04	\$3,200,000 \$54.52 \$2,374,732	Gen. Plan-Multi-Family Very High Density Residential. Zoning- R4-TOD-S. To be assembled with adjacent properties. The combined total price of all assembled properties equal \$54.16/s.f. 5 story building, 379 total units. In pre-application stage. Vacant land. 2 separate parcels- 82 & 52 acres.
	Total Assembled Price for Sale 4			165,631 3.80		\$0,971,000 \$54.16 \$2,369,321	This is the total assembled price paid for Sale 4. The average per square foot price is used in this appraisal.
5	Piedmont Road Milpitas 082-37-024	St. Josephs Episcopal Church Enea	R1-10 Single Family Low Density	9,875 0.23	Aug-04 17977231	\$350,000 \$35.44 \$1,543,899	Gen. Plan-Single Family Low Density. Zoning- R1-10-Single Family Residential. Minimum lot size of 10,000 s.f. The City of Milpitas believes that the buyer is looking to use as religious property. No application to the City of Milpitas has been submitted at this time.
6	750 E. Capitol Ave Milpitas 086-37-027	Davis Roadway Express Inc	R4-TOD (up to 60 DUA) Multi-Family Very High Density Res. 31-40 du/ac	186,020 4.50	In Contract	\$12,350,000 \$66.06 \$2,877,778	Gen. Plan-Multi-Family Very High Density Residential Zoning-R4. Within the Transit Sub Area Plan. No applications, or plans have been submitted to the City of Milpitas at this time. The buyer is trying to get rezoned to High Density Residential.
7	Fleming Avenue & Hidden Valley Lane San Jose 612-22-097	Costa Flores	R-1.6 Medium Low Density Res. 8 Du/Ac	8,204 0.21	Nov-05 18672394	\$258,000 \$28.03 \$1,221,043	Gen. Plan-Medium Low Density Residential. 8 du/acre Zoning-R-1.6, single family residential, 6,000 s.f. minimum lot size. Unimproved land, seller has plans for a single family home. Located within the County of Santa Clara.
9	3464 Canyon Creek Dr San Jose 595-35-031	Le N/A	R-1-2 PD Medium Low Density Res. 8 Du/Ac	16,552 0.38	Mar-05 18284920	\$650,000 \$39.27 \$1,710,609	Gen. Plan-Medium Low Density Residential. 8 du/acre Zoning- R-1-2 PD. Very low density residential 2 du/ac. Unimproved land, last buildable lot remaining in tract.
9	1505 Nicora Avenue San Jose 254-02-088	Nicora Avenue, LLC Montano	LI-Light Industrial Light Industrial	39,839 0.91	Oct-04 18028030	\$1,200,000 \$30.27 \$1,318,701	Gen. Plan-Light Industrial. Zoning- Light Industrial Buyer will use as a parking lot.
10	3482 Rancho View Ct San Jose 595-21-007	Salzer N/A	R-1.5 Medium Low Density Res. 8 Du/Ac	10,080 0.23	In Contract	\$550,000 \$54.56 \$2,376,786	Gen. Plan-Medium Low Density Residential. 8 du/acre Zoning-R-1.5, Very low density. Unimproved land for single family residence.
11	Fleming Avenue & Nob Hill San Jose 601-29-008, 008	Constructive Investment N/A	R-1 Medium Low Density Res. 8 Du/Ac	52,272 1.20	Listing	\$1,900,000 \$36.35 \$1,583,333	Gen. Plan-Medium Low Density Residential. 8 du/acre. Zoning-R-1, single family residential. 2 separate parcels, .37 acres & .83 acres. Possible subdivision between 6-9 lots. Located within the County of Santa Clara.



## SALES LOCATION MAP



## LAND SALE NUMBER 1



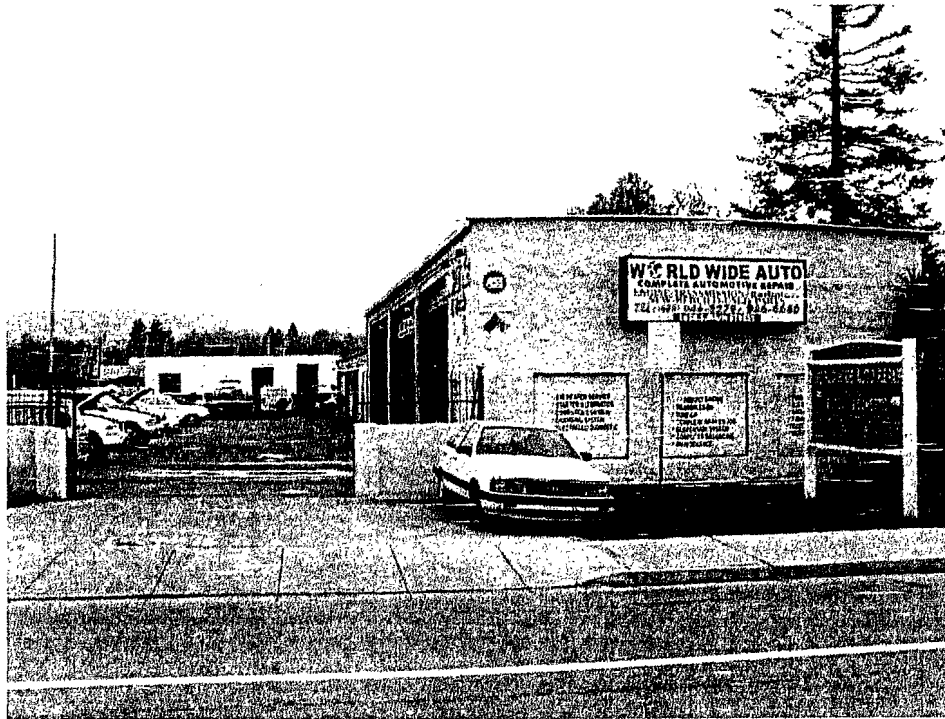
## LAND SALE NUMBER 2



## LAND SALE NUMBER 3



## LAND SALE NUMBER 4



## LAND SALE NUMBER 4A



**LAND SALE NUMBER 4B**



**LAND SALE NUMBER 4C**



## LAND SALE NUMBER 5



## LAND SALE NUMBER 6



**Sale 1** is an 8.24-acre property consisting of three individual parcels that are located on the Great Mall Parkway at Main and Able Streets, in the City of Milpitas. It is a level site, at street grade, with very good access and street frontage. It is located close to a light rail station and the Great Mall of Milpitas. It is zoned for High-Density Residential, up to 60 du/ac. The reported close of escrow was in the early part of 2004 at a reported price of \$21,000,000 or \$58.51/sf. It sold un-entitled and the price was not based on a specific number of units or a specific price per unit. This property is located within the Transit Oriented District, and Mid-Town Specific Plan Area.

We adjusted this sale upward for the beginning of 2004 contract date as the market has strengthened since that time. A downward adjustment is made for the contract price as this was an approximated price stated by the broker. No other adjustments are necessary.

**Sale 1a** is the resale of the property located on the Great Mall Parkway at Main and Able Streets, in the City of Milpitas. The property sold in November 2005 for \$31,900,000 or \$88.87 per square foot. There are three parcels that total approximately 8.24 acres, or 358,934 square feet. The project has been approved for 481 condominium units. The property was bought with all entitlements in place. This property was in contract previous to this sale for approximately \$21,000,000 or \$58.51 per square foot, and was selling without entitlements. This is a 52% increase from approximately 20 months ago.

This sale is presented as additional market data for land values that sold with entitlements in place, and to show how much land values have escalated. We are using sale number 1 in our analysis as this property was purchase without entitlements in place.

**Sale 2** is the sale of a larger site located at 1200 Piper Drive, in the City of Milpitas. There are two parcels that total approximately 15.98 acres, or 696,089 square feet. The site is vacant, level at street grade, and the street frontage improvements are in place. The property sold in September 2005 for \$26,450,000 or \$38.00 per square foot. The buyer spent an additional \$850,000 on demolition costs that brings the total sale amount to \$27,300,000 or \$39.22 per square foot. The sale price was for un-entitled land and not based on a specific number of units, or a specific price per unit. The buyer wants to construct a residential project with a density of 30-60 units per acre. The City of Milpitas would likely support the land use change. There have been talks between the City and developers to change the current manufacturing land use to transit sub-area residential. No new zoning as of 1/18/2006. No applications have been submitted to the City of Milpitas at this time.

We adjusted this sale upward for the September 2005 sale date as the market has strengthened since that time. No other adjustments are necessary.

**Sale 3** is the sale of a site located at 60 Dempsey Road in the City of Milpitas. The property sold in May 2005 for \$2,675,000 or \$49.72 per square foot. The site totals approximately 1.24 acres, or 53,805 square feet. The parcel is rectangular shaped, level, at street grade, and the overall utility is rated good. The property is not within the Mid-Town Specific Plan Area. The zoning is Neighborhood Commercial which allows for mostly commercial and office use. This is part of an assemblage. This property sold un-entitled, and would need a zoning change. There is an older building that needs to be demolished. This is in the pre-application stage for an estimated 95 residential units.

We adjusted this sale upward for the May 2005 sale date as the market has strengthened since that time. A slight upward adjustment is made to reflect the needed demolition costs to remove the improvements before development can take place. No other adjustments are necessary.

**Sale 4** is the sale of five parcels located on South Main Street in the City of Milpitas. The sale located at 1620 South Main Street sold in June 2005 for \$1,471,000 or \$88.43 per square foot. The site totals approximately .38 acres, or 16,634 square feet. There is a small structure that will need to be demolished. This parcel was the last property to be acquired for the assemblage, and is likely the reason for the \$88.43 per square foot. The sale at 1556 South Main Street in Milpitas sold in March 2005 for \$2,600,000 or \$54.76 per square foot. The site totals approximately 1.09 acres, or 47,480 square feet. There is an old motel that will be demolished. The sale located at 1602 South Main Street sold in November 2004 for \$1,700,000 or \$39.70 per square foot. The site totals approximately .98 acres, or 42,819 square feet. There are no improvements on site. The sale of two parcels located at 1608-1618 South Main Street sold in November 2004 for \$3,200,000 or \$54.52 per square foot. The two parcels total approximately 1.34 acres, or 58,698 square feet. There are no improvements on site.

The parcels are all level, at street grade, and the overall utility is rated good. The parcels total approximately 3.79 acres, or 165,631 square feet. There is an additional parcel that sold in 2001 that totals 1.98 acres, or 86,248 square feet. This parcel will be assembled with the other parcels, bringing the total to approximately 5.77 acres, or 251,879. The combined total price of all the assembled properties equal \$54.16 per square foot, and we will use this figure instead of individual property sales. This is in the pre-application stage for a 5 story building with 379 total residential units. Information was obtained from county records, and the City of Milpitas planning department.

We adjusted this sale upward for time as the market has strengthened since that time. A slight upward adjustment is made to reflect the needed demolition costs to remove the improvements before development can take place. No other adjustments are necessary.

**Sale 5** is a small vacant in-fill site located on Piedmont Road in the City of Milpitas. The property sold in August 2004 for \$350,000 or \$35.44 per square foot. The site totals approximately .23 acres, or 9,875 square feet. The property is not within the Mid-Town Specific Plan Area. The zoning is Single Family Residential which allows for a minimum lot size of 10,000 square feet. No application has been submitted at this time. The City believes that the buyer is looking to use as a religious property. There are no improvements on site.

We adjusted this sale upward for the August 2004 sale date as the market has strengthened since that time. No other adjustments are necessary.

**Sale 6** is a larger site located at 750 East Capitol Avenue in the City of Milpitas. This property is currently in contract for approximately \$12,950,000 or \$66.07 per square foot. The parcel total approximately 4.5 acres, or 196,020 square feet. It is a level site, at street grade, with very good access and street frontage. It is located close to a light rail station and the Great Mall of Milpitas. The sale price is based on getting all entitlements. The buyer wants to construct a residential project. No applications have been approved by the City of Milpitas at this time. There is an older building that will need to be demolished.

A downward adjustment is made for the contract price as this was an approximated price stated by the broker. A slight upward adjustment is made to reflect the needed demolition costs to remove the improvements before development can take place. A downward adjustment is made for the entitlements that the buyer is obtaining. No other adjustments are necessary.

**Sales 7 through 11** are residential and light industrial land sales located in North East San Jose. They range in size from 0.21 to 1.20 acres. Two of the sales sold in 2005, one sold in 2004, one is in contract, and one is a listing. The sale prices are between \$28.03 and \$54.56/s.f. These sales are presented as additional market data for land values, and it is apparent that North East San Jose land values are lower compared to Milpitas land values, as will be discussed in more detail in the Conclusion section.

These sales are included for comparison as additional market data, but not specifically adjusted for their differences as are sales 1 through 6, which are all in the City of Milpitas.

### **Conclusion**

All of the comparables represent residential land sales, or commercial/industrial land sales with the potential to be used for park development. Comparables 1 through 6 are all located in the City of Milpitas and these are given the most weight. Comparables 7 through 11 are located on the east-side of San Jose.

A statistical analysis of the comparables follows:

<b>UNADJUSTED PRICES</b>		<b><u>Average Price/SF</u></b>
<b><u>All Sales</u></b>		
<b>1-11</b>		<b>\$44.69</b>
<b><u>Milpitas Sales</u></b>		
<b>1-6</b>		<b>\$50.52</b>
<b><u>San Jose Sales</u></b>		
<b>7-11</b>		<b>\$37.70</b>
<b>ADJUSTED PRICES</b>		
<b><u>Milpitas Sales</u></b>		
<b>1-6</b>		<b>\$50.44</b>

Before adjustments, the overall average value for all 11 comparables is \$44.69/s.f. This includes the Milpitas and San Jose comparables. The average of the 6 Milpitas comparables is \$50.52/s.f. and the average for the 5 San Jose comparables is \$37.70/s.f. The San Jose comparables on average are lower than the Milpitas comparables.



As discussed previously, we have placed the most weight on the Milpitas comparables and have prepared an Adjustment Table to consider the differences in property rights conveyed, financing, conditions of sale, market conditions (time), and physical factors, where necessary.

*While we have attempted to adjust the sales to the hypothetical subject property for the differences identified in the adjustment grid, it must be remembered that the adjustment process is not an exact science. It reflects the appraiser's judgment regarding these differences and their magnitude relative to the overall sale price. The various adjustments to the comparable sales are shown on the table below.*

MILPITAS LAND SALE ADJUSTMENT TABLE						
ELEMENT OF COMPARISON	SALE 1	SALE 2	SALE 3	SALE 4	SALE 5	SALE 6
BASE PRICE PER SF LAND	\$58.51	\$39.22	\$49.72	\$54.16	\$35.44	\$66.06
PROPERTY RIGHTS CONVEYED	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ADJ. PRICE	\$58.51	\$39.22	\$49.72	\$54.16	\$35.44	\$66.06
FINANCING TERMS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ADJ. PRICE	\$58.51	\$39.22	\$49.72	\$54.16	\$35.44	\$66.06
CONDITIONS OF SALE	-10.0%	0.0%	0.0%	0.0%	0.0%	-10.0%
ADJ. PRICE	\$52.66	\$39.22	\$49.72	\$54.16	\$35.44	\$59.46
MARKET CONDITIONS (TIME)	11.0%	2.0%	4.0%	5.5%	8.5%	0.0%
ADJ. PRICE	\$58.45	\$40.00	\$51.71	\$57.14	\$38.46	\$59.46
LOCATION	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PHYSICAL CHARACTERISTICS						
STREET IMPROVEMENTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
DEMO	0.0%	0.0%	2.0%	2.0%	0.0%	2.0%
ENTITLEMENTS	0.0%	0.0%	0.0%	0.0%	0.0%	-10.0%
UTILITY/USE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL ADJUSTMENT	0.0%	0.0%	2.0%	2.0%	0.0%	-8.0%
INDICATED PRICE PER SF LAND	\$58.45	\$40.00	\$52.74	\$58.28	\$38.46	\$54.70

The sampling of all 11 of the comparables shows an overall unadjusted range of \$28.03 to \$66.06/s.f. with an overall average at \$44.69/s.f. The San Jose comparables are lower and tend to bring the average down; they average \$37.70/s.f. Excluding the San Jose sales, the average increases with the Milpitas average being \$50.52/s.f. Also, the Milpitas sales have been adjusted for the factors previously discussed. The average adjusted value for all of the Milpitas comparables is \$50.44/s.f.

Depending on the statistical sampling that is considered, the average value for the comparables is between about \$37.70 to \$50.52/s.f. Because the Milpitas comparables are given the most weight and they tend to be higher than the San Jose comparables, we have ultimately concluded an Average Unit Value at \$50.50/s.f. or \$2,199,780/acre (43,560 s.f. x \$50.50/s.f.).

The last appraisal for the City of Milpitas was in June of 2004, and we concluded land value at \$35.50/s.f. Sales from June 2004 to January 2006 would indicate an average of \$50.50/s.f. This is a 42% increase from 19 months ago. The June 2004 survey had no sales in Milpitas above \$46.53/s.f. The current survey has one sale that is a closed transaction of \$66.06/s.f. This is a high sale that may or may not be an anomaly.

Since we are using a mathematical average method, this sale cannot be eliminated. It appears that prices are trending upward. It will be of interest to see if land values continue to trend upward in the coming months.

Because we are not considering a specific property, we have provided all of the necessary information to fully document the comparable sales and adjustments and explain the process leading to the final Average Per Acre Determination of Market Value.

## **FINAL VALUE RECONCILIATION**

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With respect to reconciliation, there is, in this case, only one applicable approach to value, the Sales Comparison Approach. As a result, this is the sole basis for the value conclusion. The Sales comparison Approach to value is believed to be the most relevant indicator of value, as it is the most likely method of valuation for vacant land.

Based on our investigation and analysis, it is our opinion that the Average Market Value of the Fee Simple Estate in a potential park site location in the City of Milpitas, subject to the attached Contingent and Limiting Conditions, as of January 31, 2006, is:

**Fifty Dollars Fifty Cents PER SQUARE FOOT  
(\$50.50/SQ. FT.)**

**OR**

**TWO MILLION ONE HUNDRED NINETY NINE THOUSAND  
SEVEN HUNDRED EIGHTY DOLLARS PER ACRE  
(\$2,199,780/ACRE)**

***SECTION IV-***  
***ADDENDA***

# **Terry S. Larson, MAI**

**California Certified General Real Estate Appraiser No. AG007041**

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## **QUALIFICATIONS**

Terry Larson has been a professional real estate appraiser and consultant in Northern California since 1981. He concentrates his work in the San Francisco Bay Area, but has also performed national assignments in over twenty states. Terry has been a resident of the Bay Area since starting his career and has a strong knowledge of the local markets.

Terry began his career with American Appraisal Associates, the largest full service valuation firm in the world; providing valuation services for real estate, personal property, and intangible business assets. He advanced to manager of the Northern California Real Estate Valuation Group and managed a staff with a territory that covered California as well as assignments across the country. In 1988 Terry joined Hulberg & Associates as a Senior Real Estate Appraiser in San Jose. Terry then worked as a Commercial Realtor with Cornish & Carey in Santa Clara where he utilized his appraisal knowledge as an Investment Real Estate Specialist.

Upon joining Smith & Associates in 1997, Terry expanded the firm's territory into Santa Clara, San Mateo, and San Francisco Counties and built a group of appraisers that emphasize litigation support, eminent domain and partial interest valuations.

Terry regularly provides litigation support services that include property analysis and valuation, as well as deposition and expert witness testimony. He also provides arbitration & mediation services in disputes regarding real estate values, fair rental rates, and related matters.

Terry has a broad background in real estate appraising that includes the following property types; industrial, R&D, commercial, office, retail, and vacant land. Specialized areas include litigation support, eminent domain, and Fixed Base Operations at airports (FBO's).

## **CLIENTS**

Terry regularly works with banks and other lenders, developers, attorneys, private property owners, local government agencies including cities and counties, the State of California, and the Federal Government. For a client list see our web page at [www.SmithAssociatesInc.com](http://www.SmithAssociatesInc.com).

## **ASSIGNMENTS OF INTEREST**

- Expert Witness for a condemnation case representing a public agency taking land, Superior Court of California, Santa Clara County.
- Expert Witness for a condemnation case representing a private property owner having land taken by a public agency, Superior Court of California, Contra Costa County.
- Appraised 80 properties for condemnation and acquisition of easements to construct the new Los Banos – Gates Transmission Project in Central California (Path 15).
- Prepared preliminary budgetary valuation studies for several hundred properties for the proposed BART extension from Fremont to San Jose and Santa Clara.
- Providing on-going appraisal and expert witness services (over 75 appraisals to date) for the VTA in support of the Light Rail Project being constructed in Santa Clara County.
- We provide appraiser services to the Western Region General Services Administration (GSA) of the US Government. Assignments include large office & industrial projects with federal tenants and historical significance.
- Terry has testified at the San Mateo County Tax Board for tax appraisals for the Redwood Shores Special Assessment District. Responsible for annual tax assessments for this entire district with an assessed value of over \$1 Billion. Terry has testified in Santa Clara County as a factual witness and been deposed for several court cases.
- Provider of commercial appraisal services for many local and national lenders, including Wells Fargo Bank and Bank of America, among many others.

# Terry S. Larson, MAI

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## ASSIGNMENTS OF INTEREST

- Appraised several Fixed Base Operations (FBO) at the Concord Buchanan Airfield for lease extension negotiations.
- Appraised 75 acres that the City of San Jose bought from a private owner for off-airport use.

## PROPERTY TYPES APPRAISED

Commercial	Retail, Office, Apartments, Hotels, & Restaurants.
Industrial	Warehouse, Industrial, R&D Facilities, Mini-Storage, Manufacturing Plants, Truck Facilities, Cross Docks, and Corporate Campuses.
Vacant Land	Industrial, Commercial, Agricultural, and Residential
Specialty	Golf Courses, Mixed-Use Projects, Food Processing, Fixed Base Operations, Sr. Housing, RV Parks, Right-of-Way, Easements, Detrimental Conditions, Minority Interests, Eminent Domain, Arbitration, and Mediation.

## WORK HISTORY

1998 – Present	Partner	Smith & Associates, Inc.
1997 - 1998	Senior Appraiser	Smith Denton Associates, Inc.
1996 - 1997	Commercial Realtor	Cornish & Carey, Investment Services Group
1988 - 1996	Senior Appraiser	Hulberg & Associates, Inc.
1981 - 1988	Appraisal Manager	American Appraisal Associates, Inc.

## EDUCATION

Bachelor of Science, School of Business Finance, University of Oregon, 1980

### Appraisal Institute Courses:

Real Estate Appraisal Principles; Basic Valuation Procedures; Capitalization Theory and Techniques; Standards of Professional Practice; Case Studies in Real Estate Valuation; Valuation Analysis and Report Writing; Uniform Standards of Professional Appraisal Practice (USPAP); Case Studies in California Eminent Domain; Federal and State Laws and Regulations; The Appraisers Workfile; Appraisals for Estate Tax Purposes; Valuations of Partial Interests; Fractional Interest and Business; California's Condemnation Process; Appraisal of Nursing Facilities; Right of Way Acquisitions.

### International Right of Way Association Courses:

Appraisal of Partial Acquisitions; Eminent Domain Law Basics, Basics for Right of Way; Issues in Eminent Domain Valuation; Telecommunications and Rights of Way.

Numerous real estate courses, seminars and continuing education classes.

## PROFESSIONAL AFFILIATIONS

State of California Certified General Real Estate Appraiser, No. AG007041  
Member of the Appraisal Institute, MAI No. 11046  
International Right of Way Association, Member No. 2508  
California Department of Real Estate Salesperson, License No. 01213728